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THE FRANCO-GERMAN WAR INDEMNITY - AND ITS - - - - ECONOMIC RESULTS

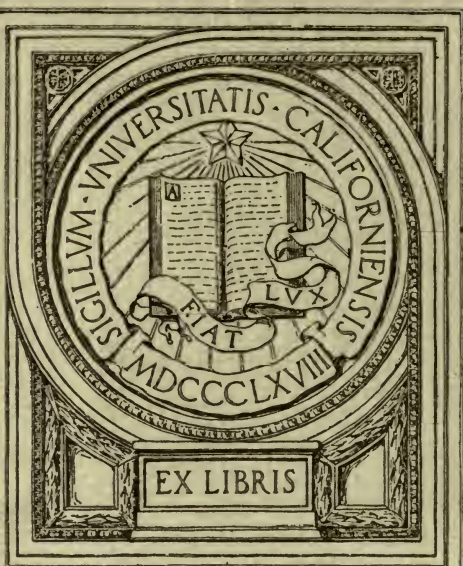
BY

HORACE HANDLEY O'FARRELL

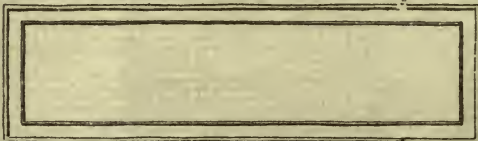
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THE CRANFORTHMAN - ALL INDEMNITY - AND ITS ECONOMIC RESULTS

By the Hon. Mr. Justice
of the Supreme Court of
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THE FRANCO-GERMAN WAR INDEMNITY - AND ITS - - - - ECONOMIC RESULTS

BY

HORACE HANDLEY O'FARRELL

Late of the Indian Civil Service
Fellow of the Royal Economic Society

WITH

AN INTRODUCTION

BY

VISCOUNT ESHER, G.C.B., G.C.V.O.

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"We do not yet realise the full importance of the Industrial Revolution. Rightly conceived, it means the coming internationalism of mighty empires in friendly competition with each other, not for the division of what exists, but for the utilisation of what can be made to exist."

Seligman, "PRINCIPLES OF ECONOMICS."

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INTRODUCTION

WHEN Sir Richard Garton placed a large fund in the hands of certain Trustees, with a view to enquiring into the value of Norman Angell's economic theories, it was intended by him and by those associated with the Garton Foundation that every sincere attempt to examine the doctrines of the "Great Illusion" should be supported.

Mr. O'Farrell had taken for his theme the chapter of Norman Angell's book entitled the "Indemnity Futility" in which certain statements are made as to the economic effects upon both nations of the huge indemnity paid in 1871 by France to Germany. The deductions drawn by Norman Angell are not precisely challenged by Mr. O'Farrell, but they are subjected to close scrutiny and analysis.

Starting at Cambridge eighteen months ago, with the formation of the War and Peace Society, and spreading to Glasgow, Manchester, Newcastle, Bristol, and Leeds, &c., the Garton Foundation by means of *Study Clubs* and Lectures and Debates have, for the past two years, quietly and unobtrusively been stimulating curiosity in Norman Angell's theories and discussion of their economic aspects.

The progress of this enquiry, and the interest excited in Germany, in France and in the U.S. of America, as well as in Great Britain, have surpassed the expectations of the Founder and his associates.

Among the problems posed by Norman Angell was one named by him the "Indemnity Futility." While he contends that there can be no doubt that a country which pays a large war indemnity, such as France paid to Germany in 1871, loses that amount of wealth, he postulates as an axiomatic dilemma, that the country receiving the plunder, gets it either in the form of real wealth, which constitutes a serious competition and injury to its own manufactures and traders, or it raises the prices of commodities, in which case the community suffers. His contention is that the history of the period 1870-1880 bears out what he calls this paradox: and he has given, in the "Great Illusion" his explanation of the financial and commercial phenomena of that decade.

Mr. O'Farrell has set himself, in the following pages, the task of examining closely this thesis and the facts presented by the statistical records of that time. His conclusions upon the specific point are not in agreement with those of Norman Angell.

Financial results attributed by the author of the "Great Illusion" to the receipt by Germany of the War Indemnity, are traced by Mr. O'Farrell to other causes, more widespread and universal. There is obviously further room for examination of and enquiry into this most interesting question.

In the concluding paragraph of his chapter on the "Indemnity Futility" Norman Angell says :—

"I do *not* urge the absurdity that it is
"impossible for one Government to make
"a payment of a large sum of money to
"another, or for the Government receiving it
"to benefit thereby, but that the population
"as a whole of any nation receiving a large
"indemnity must suffer from any consequent
"financial disturbance in the credit of the
"paying nation ; that if the Protectionist
"doctrine is just that they must suffer
"great disadvantage from the receipt of
"wealth—*i.e.* commodities—which has not
"employed the home population, and from
"the rise of prices which checks their
"exports ; that those are factors which must
"be taken into consideration in estimating
"the *real* advantage to the *general popula-*
"*tion* of any country which may succeed in
"extorting bullion from another as war
"plunder."

Whether Mr. Norman Angell is justified in differentiating between the Government of a Nation and the Nation itself, under modern conditions, when states are no longer ruled by autocrats or oligarchies who can enrich themselves personally with the plunder of war, is a question worth discussion and enquiry.

Is it safe to assume, as Mr. O'Farrell does, the truth of John Stuart Mill's dictum, that "what the

“enemy have destroyed (in the case of indemnity
“we may add ‘or appropriated’) would have been
“destroyed in a little time by the inhabitants
“themselves, and the wealth which they reproduce
‘would have been reproduced’?”

This is the theory of poking a stick into an ant hill. It may be true, or it may not, that the recuperative power of a stricken people more than balances the financial effects of a blow inflicted by disastrous war. It may be true that an attempt on the part of a victor to recoup himself for inevitable losses by wringing an indemnity from the vanquished, is to heap additional injury upon the heads of his countrymen.

These unsolved problems go to the root of the matter which the Garton Foundation exists to probe. Mr. O'Farrell's essay is published in order to stimulate their examination and discussion.

ESHER.

AUTHOR'S PREFACE

THE present essay on the circumstances attending the payment of the Franco-German war indemnity and its economic results is an attempt to cover in somewhat greater detail the same ground as the sixth chapter of my friend Mr. Norman Angell's brilliant and convincing work, "The Great Illusion." It had its origin in a paper that I was invited to read rather more than a year ago to a little band of earnest students, formed under the auspices of the Garton Foundation, for the purpose of unprejudiced discussion of Mr. Angell's doctrines. The following pages represent, in the main, an elaborated version of the views I then expressed, with some modifications suggested by the discussion which ensued and by subsequent reading. Although I am unfortunately not able to see entirely eye-to-eye with the gifted author of "The Great Illusion" on this particular topic, the Garton Foundation has with characteristic impartiality undertaken the publication of the essay, which, apart from all matters of controversy will, I hope, be found to embody in a compact and useful form a good deal of information scattered in various books and periodicals and not otherwise readily accessible.

In compiling the bibliography I have derived much assistance from Stammhammer, "Bibliographie

der Finanzwissenschaft" (Art. "Kriegsentschädigung") and from the list of authorities appended to Serrigny's elaborate and suggestive work, "Les conséquences économiques et sociales de la prochaine guerre." Many of the earlier pamphlets noticed in the former of these sources are not to be found in the British Museum and are probably of little interest at the present time. Judging from the descriptions of them that I have met in contemporary literature, they embody for the most part impossible or fantastic proposals for raising the necessary funds to discharge the obligations imposed as a result of the war. One writer, for instance, advocates the sale of titles of nobility at exorbitant rates, thus "rendering for the first time" as he naïvely remarks "all Frenchmen truly equal"! At the present day such suggestions serve only to indicate how insoluble the problem appeared to the general public of the time, and to throw into striking relief the simplicity of the means finally adopted—a confident reliance upon the resources and financial credit of the country, and upon the generous co-operation of the money-markets of Europe.

I should like to add that my differences of opinion upon this subject imply no distrust of the soundness of Mr. Angell's doctrines as a whole, and that even on the particular topics dealt with in the essay I have arrived, though by a different path, at conclusions that do not differ very greatly from his own.

H. H. O'F.

CHAPTER I

THE PAYMENT OF THE INDEMNITY

IN accordance with the Treaty of Frankfort, signed on 10th May, 1871, which confirmed and extended the preliminaries of peace of 26th February of the same year and thus ended the war between France and Germany, the former country was compelled to pay a sum of five milliards of francs (£200,000,000) to the victor by fixed instalments covering a period of three years, during which a German army was to remain in occupation of a considerable portion of French territory. The magnitude of this huge "war-fine," as a contemporary German economist well described it, vastly exceeded the costs to which the conquerors had been put by the military operations and was unparalleled in modern times. If paid in coin it would have almost drained the French nation of its total stock of metallic money, to which it was approximately equivalent. The burden fell upon a country shorn by the fortunes of war of two of its wealthiest provinces and the conditions imposed

were designedly onerous. No payments were to be "liberative" unless made in gold or silver, or in German thalers or florins; English, Prussian, Dutch or Belgian bank-notes or first-class commercial bills might be provisionally accepted, but did not constitute a definite payment until their value had been realised and converted, at the cost of the French government, into German currency. The various instalments had to be paid at the due dates, neither before nor after, and no payments on account were at any time permitted; the object of these stringent provisions probably being to continue the occupation of French territory as long as possible, and thus escape the risks of a too sudden demobilisation of German troops. Interest at five per cent. was exacted on the last three milliards* and made payable in advance on the 3rd March of each year, subject to the right, under certain conditions, to accelerate their final payment which was due on the 2nd March, 1874. The French government took advantage of this privilege, and in the result the whole indemnity was paid off on the 5th September, 1873—just twenty-seven months after the date of the first payment made on the 1st June, 1871.

The total cost to France, including interest and expenses of collection and transmission, amounted to about £212,645,000. The whole was discharged in cash, or its equivalents, with the exception of a sum of £13,000,000 which the German government agreed to allow as the value of the railways taken

* A milliard of francs is 1,000 millions, equivalent to 40 millions of pounds sterling.

over in Alsace-Lorraine. This concession did not, however, reduce the burden of the indemnity to the French government as the railways were the property of a private company, from which they had to be acquired by purchase.* To Germany, whose losses, direct and indirect, were estimated by Sir Robert Giffen at about £115,000,000 (of which some £25,000,000 were charged to revenue) the payments represented, apparently at least, a net capital gain not very far from a round sum of £100,000,000 sterling.

The transfer of this huge sum from the one country to the other involved banking operations of the utmost difficulty and delicacy, which at the outset appeared likely to impair French credit and throw the international monetary system into confusion. Thanks, however, to the able management of the French treasury officials and bankers, and to the hitherto unapprehended strength and close interrelation of the money-markets of Europe, the transactions were carried through with the utmost smoothness and without the slightest disturbance of international credit.

Comparatively little of the indemnity, as will be seen hereafter, was paid in actual coin or bullion. The various instalments were transmitted mainly in the form of commercial bills, purchased in the open market by the French government or its agents in foreign countries, either directly, or (in the case of a portion of the second loan) through a syndicate of

* See Giffen, "The Cost of the Franco-German War," 1872.

European bankers, who agreed to furnish a sum of 700,000,000 francs (£28,000,000) in this form. When the bills so obtained were not expressed in German currency they were at first transmitted direct to Germany in order to be converted into German legal tender in accordance with the provisions of the treaty of Frankfort. Later on, however, the French government found it much more advantageous to keep the conversion in its own hands by purchasing bills on Germany with the proceeds of non-German paper. It bought, for instance, English bills to the extent of nearly £62,000,000 of which £32,000,000 were converted into bills on Germany before despatch. In the result, while out of the first 2 milliards only 23 per cent. was in German legal tender and the conversion cost a little over £540,000 sterling, 88 per cent. of the second 3 milliards was in such tender and the conversion was effected for the comparatively trifling amount of £11,000. The task of the French government, it may be noted in passing, was greatly facilitated by the indebtedness of Germany to England at this period, both on commercial account and as a result of the short loans which the German government had contracted in London in order to finance the military operations.

The total number of bills involved in these transactions was 120,000, ranging from sums of £40 to £2,000, and the payments in all reached £169,952,000 or about six-sevenths of the cash payments of £199,645,000. The details are as follows :—

	£
Bills in thalers	99,412,000
„ Frankfort florins ...	9,404,000
„ Marks-banco* ...	10,608,000
„ Reichsmarks ...	3,190,000
„ Dutch florins ...	10,020,000
„ Belgian francs ...	11,828,000
„ Pounds sterling ...	25,490,000
Total ...	169,952,000

The above figures represent, of course, the bills actually transmitted, not those purchased, of which the amount was £234,508,000. The difference is due to the conversions already noted.

All these bills were bought, for the most part, with inconvertible banknotes, and the extremely moderate rates at which they were procured is an index of the very slight depreciation which had resulted from the suspension of cash payments.† If

* The mark-banco was a Hamburg money of account, representing the right to demand a certain weight of fine silver, and was introduced in consequence of the various denominations circulating in the German states, and the impediments to international trade caused by the chaotic state of the coinage. The right to demand silver in exchange for securities expressed in marks-banco ceased on the 15th February, 1873, when the mark-banco was made equivalent to $\frac{1}{2}$ thaler.

† Cash payments were suspended by an Act of the legislature dated 12th August, 1870, with a view of arresting the great drain of the precious metals then in progress. They were resumed on the 1st January, 1878.

we compare the average rates, for instance, at which German bills in thalers and florins were procured with the rates for cash specified in the Treaty of Frankfort, we find that while the treaty rates for thalers were 3.75 and for Frankfort florins 2.15f. the average rates for bills in those denominations, taking the whole of the transactions together, were 3.791 and 2.1637f. respectively; an excess, in the first case, of a shade over 1, and in the second, of a trifle more than $\frac{1}{2}$ per cent. Except, indeed, for a very brief period in 1871, there was at no time any appreciable* depreciation of the note currency, in spite of the fact that the circulation was continuously increased from 1,255 millions to 3 milliards while the cash reserve fell from 1,145 millions to 700 millions. The reasons for this curious state of things may be gathered from the figures just given. At the earlier period, under the conditions prevailing at the time of the declaration of war, the paper currency was only very slightly in excess of the cash reserve, and the note was little more than a bullion certificate. Its issue in larger quantities and in smaller denominations than the 100-franc note (which had hitherto been the minimum) was not merely feasible, but eminently desirable. Great though the increase in the circulation appeared to be it was more than warranted by the large demands of

* "Appreciable," that is, so far as ordinary business transactions were concerned. But the very minute depreciation that did exist had the effect of extinguishing, once for all, the rivalry of France with England as a banking centre and clearing-house of the world at large. See Bagehot, "Lombard Street," Chap. II, p. 33 (edition 1896, with notes by E. Johnstone).

the government during the war for military stores and transport and by the enormous expansion of trade which followed the conclusion of peace. The parity of the note with bullion, the failure of which is the sure test of over-issue, was, as has just been seen, maintained practically throughout.

Contemporary writers do not seem to have altogether grasped the real nature of this phenomenon. M. Bonnet, a noted French economist of the time, and Serrigny among modern writers, appear to think that the parity was due to the large stocks of the precious metals remaining in the country in the hands of private individuals, though it is hard to see how these stocks which could not legally be demanded in exchange for notes could in any way assist in keeping up their value. The explanation, in fact, inverts cause and effect. The large stocks were retained in the country in consequence of the non-depreciation, and were in no sense its cause. Recent experience in British India* appears to show that a token currency—and an inconvertible note is essentially the same thing—can be maintained at par, even in a time of great financial pressure, with a metallic reserve of 15 to 20 per cent. of the total circulation. This latter proportion was barely reached in France (in October, 1873), and there is little doubt that the

* See Conant, "The Gold Exchange Standard," in the *Economic Journal*, vol. 19 (1909) and for further details of the Indian system Barbour, "The Standard of Money," Fisher (Prof. Irving), "The Purchasing Power of Money," and J. M. Keynes' recently published "Indian Currency and Finance" (Macmillan, 1913). Also *infra*, p. 28.

700 millions then remaining in the bank coffers, would have sufficed to maintain the parity of the note issue had it been seriously threatened. In fact, the bank did make use of them to a limited extent, by lending the State 150 million francs from its gold reserves for remittance to Germany, in preference to increasing the note circulation.*

The extreme disproportion between reserve and circulation, however, was foreign to the cautious instincts of French banking, and only lasted for a short time. In December, 1874, Wolowski† noted that the cash reserve had reached its former dimensions and represented one-half of the note issue. Neymarck gives the actual figures at the close of 1874 as 2,500 millions against a cash reserve of 1,150 millions.‡ The circumstances differed entirely from those prevailing on the previous occasion of resort to the *cours forcé*, in 1848, when there occurred a terrible fall in securities, and every financial house in Paris, with one exception, had to resort to liquidation. In 1871 there were no failures, and the new five per cent. loan, issued at $82\frac{1}{4}$, was quickly run up to 90 and 91.

This was the second in point of time of the three great loans by which the government of the republic procured the necessary funds for discharging its obligations to Germany. The first was borrowed

* L. Say, Report of Budget, "Les Finances de la France," tom. 1, p. 394.

† "Résultats Économiques, &c." (Guillaumin et Cie., 1874), p. 8.

‡ *Finances Contemporaines*, II, p. 54.

from the Bank of France and was for the amount of 1,530,000,000f. The other two were obtained by public subscription and were known as the "two" and "three milliard" loans respectively, the actual amounts subscribed being 2,225,994,045f. and 3,498,744,639f. Of the former about 72 and of the latter about 86 per cent. were applied to the discharge of the indemnity, the balance of the principal amounts being made up from the loan obtained from the Bank of France, and from the sums set apart for the purchase of the Alsace-Lorraine railways. The interest on the indemnity payments was charged to the budgets of 1872 and 1873.

The subscriptions were extended over lengthy periods and appear to have been paid with considerable regularity. On the 31st July, 1874, according to M. Léon Say, the whole of the instalments of the first loan had been paid up, and of the second only a small balance of 7,136,000f., or less than $1\frac{1}{2}$ per thousand, remained undischarged.

Both these public loans were nominally five per cent. loans, but as they were issued at $82\frac{1}{4}$ and $84\frac{1}{4}$ the actual rates of interest worked out at 6.07 and 5.93 respectively, and the cost to the government was still greater in consequence of the liberal underwriting commissions considered necessary in order to ensure success. The first loan issued on 27th June, 1871, was taken up in a single day, and the price ran up quickly to 88 and 90. The second loan of "three milliards" was issued on the 28th July, 1872, and was covered twelve times over; five times by French, and seven times by foreign

subscriptions.* The actual deposits received with the applications in the shape of coin, bank-notes and commercial bills amounted to twice as much as the loan itself. The deposit of bills with the applications, in lieu of cash, was an expedient resorted to by the French authorities who agreed to accept such bills in payment of the first and subsequent instalments, thereby assuring the plentiful supply of commercial paper which they so urgently required.

Other means adopted to ensure the success of the loans were :—liberal commissions to foreigners to induce them to subscribe, discounts on instalments paid in advance of the due dates, and, above all, in the case of the second loan, the resort to a syndicate of European bankers to secure a large batch of foreign bills. All these expedients no doubt ran up the cost to the nation very considerably, and they were much animadverted upon by writers of the period.† As it turned out, the loans in all probability could have been secured more cheaply ; but failure would have been disastrous and the authorities were not justified in running risks. The arrangement with the syndicate of bankers had, besides, important indirect results. Fifty-five houses

* Of the first loan only 300 millions were subscribed abroad ; of the second 2,288 millions. Serrigny, "*Les Conséquences, &c.*," p. 102. He states that many of these foreign subscriptions were not completed, the interests of the subscribers having been bought up in France. It is worth noting, as bearing on the subject of German capital seeking investment at this period that the largest percentage of foreign subscriptions (33 per cent.) came from Germany. Mulhall, "*Progress of the World*," p. 262.

† *E.g.* Amagat, "*Les emprunts.....de la rançon de 1871*," pp. 140-1 and 144-5.

joined in the transaction, but some of them represented combinations of smaller firms, so that practically the whole of the European banking community was involved, and it was made to its obvious interest to keep the exchanges as low as possible. By this means the other exchange operations of the French government were greatly facilitated.

The total transactions connected with the loans may be summarized as follows :—

German notes and coin collected in France after the war*	£	£
French gold and silver	4,201,000	
French bank-notes accepted by Germany as a matter of favour	20,492,000	
	5,000,000	
Total coin and notes		<u>29,693,000</u>
Bills on Germany	122,614,000	
Bills on other countries	47,338,000	
Total bills		<u>169,952,000</u>
Value of Alsace-Lorraine railways allowed in account		<u>13,000,000</u>
Grand Total	£	<u><u>212,645,000</u></u>

* This amount which figured chiefly in the earlier instalments appears large, seeing that the expenses of the German Army were defrayed to a great extent by local requisitions on the territory occupied by the troops. It points to much private as well as public expenditure on French soil. Léon Say also notes in this connection the premium in Germany on French 20-franc pieces which amounted in November (1870) to as much as 29 per cent. (Report, p. 392).

The total amount of French coin and bullion employed in the course of these transactions, according to M. Léon Say's calculations founded on the annual returns of the Customs House, consisted of £10,920,000 in gold, and £9,572,000 in silver* despatched on government account, and of a sum estimated by him at about £8,000,000, exported by private persons to cover excess drafts on Germany—in all, about £28,000,000. A writer in *Blackwood*, from whom many of the preceding particulars are taken, would put the total remitted against overdrafts at 18 instead of 8 millions, thus making the grand total 38 instead of 28 millions. Even the latter estimate is surprisingly moderate, being only 18 per cent. of the whole indemnity payments. And the loss of all this coin was merely temporary. The sudden rise of prices in Germany due to the influx of the French money, or more correctly to the precipitancy with which the German government placed it on the market,† had the inevitable result

* Of this amount nearly £4,000,000 were coined out of silver procured at the Bank of Hamburg, the price of silver having fallen in Germany. See "Report of the Select Committee on the Depreciation of Silver," 1876, pp. xxix, and Léon Say's "Report," p. 401.

† According to Max Wirth (*La Réforme Économique*, 15th Nov., 1876) the trouble was due to the German government availing itself of the permission in Art. IV of the Currency Law, and placing the new coins on the market without withdrawing an equivalent amount of silver. The amount of 762 million marks, according to an official statement, was so issued up to November, 1874. No exportation of gold was possible as long as the indemnity payments were still in progress and the exchanges were in favour of Germany; but as soon as they were completed the drain began and gold to the extent of 200 (or as some reckoned 500) millions of marks left the country between July, 1874, and the beginning of

of checking exports and causing a counter movement of the precious metals across the French frontiers. The silver, in particular, which the German government was bound by the provisions of the Treaty of Frankfort to accept, proved a drug in the market, in consequence of the decision subsequently taken to adopt a gold currency. The whole of it is said to have returned to France before the end of 1874.*

As regards the ultimate sources from which the indemnity payments were met, the facts are rather obscure. A portion of the two public loans—probably about one-third—was taken up by investors abroad, but the French economists are of opinion that practically the whole of this foreign holding was re-absorbed at a later date, and the question is, from what funds the French subscriptions were derived? M. Say who instituted special enquiries upon this point, confessed that they had led to no certain results. He thinks that the bills for 4,248 millions of francs in which the bulk of the payments were made could not have been compensated by sales of merchandise abroad, because the excess of exports in 1872-73 was only 517 millions and did not even suffice to balance the excess of imports in the previous year amounting to 694 millions. An excess of imports, however, by no means always or even generally implies an over-payment which requires to be subsequently balanced. The table, moreover,

1875, when stringent measures were taken to arrest it. The Bank of Prussia raised its rate to 6 per cent. and began to pay in silver thalers which, by Art. XV., were still legal tender, "provisionally."

* "Report of the Select Committee on the Depreciation of Silver," 1876, p. xxix.

given at p. 422 of the report, here reproduced and extended, seems to put any such explanation completely out of court :—

Year.	Merchandise.				Bullion and Specie.	
	Imports.	Exports.	Excess of		Excess of	
	(Million francs)		Imports.	Exports.	Imports.	Exports.
1867	3,026·5	2,825·9	200·6	...	596·7	...
1868	3,303·7	2,689·9	513·8	...	321·6	...
1869	3,153·1	3,074·9	78·2	...	383·1	...
1870	2,781·4*	2,802·1	...	20·7	155·2	...
1871	3,566·7	2,872·5	694·2	...	...	200·6
1872	3,570·3	3,761·6	...	191·3	49·6	...
1873	3,584·8*	3,787·8*	...	203·0	73·0	...
1874	3,507·7	3,701·1	...	193·4	792·2	...
1875	3,536·7	3,872·6	...	335·9	655·8	...

* NOTE.—These figures are taken from the Statistical Abstract for the Principal Foreign Countries for 1878–79 and differ slightly from those given by M. Say. They presumably embody corrections made in the original accounts subsequently to the date of M. Say's report.

From this table it is evident that for at least four years previously to 1871 there were unbalanced imports amounting to the large sum of 772 millions of francs. Nor were these imports compensated by exports of bullion or specie. On the contrary, except in the year 1871, the imports of the precious metals were greatly in excess of the exports. The further statement made by M. Say, that the dividends due to France on foreign securities for three years amounted to 1,800 or 2,000 million francs—an average of over 600 millions a year—goes far to explain the figures given above. Some such sum has to be added to the excess of exports in the years during which the indemnity payments continued, and

perhaps to those of one or two years later, in order to estimate the extent of the changed commercial conditions, and the funds really available for the purchase of foreign bills and for the re-absorption of the portion of the indemnity loans held abroad. We should thus arrive at an amount of over 1,700 millions by the end of 1873, of 2,500 millions by the end of 1874, and of 3,500 millions if we include the year 1875, after which date the imports again continued to be permanently in excess of the exports. The major part of the indemnity funds M. Say believes to have been furnished by the absolute sale abroad of foreign securities held on French account, and not, as seems possible from the foregoing calculation, largely from a combination of the commercial balance with the dividends due on these securities. Full statistics, he allows, are not available, but he notes two facts important in this connection : (1) on the 1st July, 1869, the half-yearly coupons of Italian Rentes paid in Paris amounted to over 40 millions of francs, while on the 1st January, 1874, the total was only 25 millions. He concludes that in the interval Paris had probably sold this stock to the extent of 30 millions representing a capital of 3-400 million francs. Similarly, (2) Turkish coupons decreased from 3,265,612f. in January, 1870, to 728,181f. in July, 1873.*

* The total amount of French capital invested abroad at this period is estimated by Courtois and Bailleux de Marisy at 7 milliards nominal, and 5 milliards paid-up. This seems an under estimate if L. Say is correct in his view that 600-700 millions was a minimum valuation of the dividends on foreign investments. The present day foreign investments of France, according to

The inference that these decreases represented actual sale is plausible and probably to a great extent correct. But it is not absolutely conclusive in all cases, since the stock may in some instances have been temporarily pledged to secure advances from foreign bankers, and the dividends appropriated abroad. The probable sources, according to Wolowski, from which the loans were subscribed were (1) values realised from the sale of securities, (2) dividends due on those still retained, and (3) diversion of savings which would have otherwise gone to fresh investments abroad. He does not attempt to estimate the relative importance of these three sources.

In any case the assumption on which the amount of the indemnity appears to have been fixed by Germany—that it would inflict a mortal blow on French industry and commerce—proved an entire miscalculation. The total cost to the French nation of the campaign of 1870, apart from the cession of territory, has been variously estimated at 400 to 631 millions of pounds sterling, the last-named being the figure arrived at by the late Sir Robert Giffen in his elaborate essay on the cost of the Franco-German war. The one certain point is that after peace was

M. Neymarck, amounted to 35 milliards in 1910 (Hirst, "The Stock Exchange," p. 90). Victor Bonnet (*Revue des Deux Mondes*, 15th July, 1874) says that the most competent authorities estimated the foreign securities disposed of in connection with the indemnity payments at a milliard and a half. But no really satisfactory materials appear to exist for anything but more or less plausible conjectures. The matter is fully discussed by M. Say at pp. 437-440 of his report (as reprinted in his "Les Finances de la France," tome 1).

concluded a permanent addition of 700 million francs—about £28,000,000—was made to the annual taxation of the country. Sir Robert Giffen's estimate of the annual savings of the French nation at this period is about 60 millions sterling. Other estimates are much higher. The writer in *Blackwood* already referred to puts them at 80, and M. Victor Bonnet at not far from 120 millions.* If M. Say is correct in assuming that the dividends on foreign securities alone represented a payment of £25,000,000 annually, the figure of £80,000,000 for the total savings would seem to be too low. The fresh burdens inflicted as the results of the war would on the lowest estimates not amount to a half, perhaps not even to a third, of the annual surplus, and the increased commercial activity that set in after the conclusion of peace would have still further reduced the proportion. In spite of the loss of the two manufacturing provinces, the foreign trade of France—a good index of the commercial prosperity of the country generally—continued to increase in the years succeeding the war, not merely per head of the population, but absolutely. The average imports for the years 1870–1874 were £136·5 millions, and for the subsequent quinquennium 1875–1879,

* The last named figure is also that adopted by Courtois and Bailleux de Marisy (see the latter's "Les Etablissements de Crédit" in the *Revue des Deux Mondes*, 1st July, 1872, p. 202). An American writer caustically observes, referring to the ingenious deductions of Sir Wm. Petty, "Now-a-days more abundant and more accurate figures are available on which to base guesses, but the methods of modern calculations of national wealth are, so far, not essentially different from his." "The Economic Writings of Sir William Petty," by C. H. Hull, i, lxxi.

£159·7 millions, or £3 14s. 4d. and £4 6s. 4d. per head respectively. The corresponding figures for the French exports were £135·5 and £138·4 millions, and £3 13s. 9d. and £3 14s. 10d. per head of the population.

It is not, however, to be concluded that France escaped entirely unscathed. French writers of the period were fully aware that this was not likely to be the case. To the taunt of the German economists that France had merely postponed her liabilities and effected nothing but a change of creditors, M. Wolowski replied that the charge was true and constituted both an alleviation of the present situation and a ground of confidence in the future. The permanent sources of production had not been impaired, and the powers of recuperation which the country possessed were far greater than the German writers imagined. The soundness of these contentions has been demonstrated by subsequent events, but the further conclusion of the same author that the speedy reduction of the national debt was not desirable is more open to question. The national debt of France is now the heaviest in Europe. The dead-weight debt, after deducting productive assets, is at present, according to a writer in the *Economist*,* at least £1,000,000,000 sterling, and the total redeemed every year only about £6,000,000. The continual depression of Rentes, in spite of the privileges which they enjoy,† has, it is said, begun to

* 10th August, 1913.

† Distrainment is not leviable on Rente, and advances, which cannot legally be refused, are obtainable on it at bank-rate and free from all commission. It is now proposed to exempt rente-coupons from all taxes. *Ibid.*

attract attention even in Parliamentary circles to the inadequate provision made for debt reduction. In the forty years that have followed the war of 1870 French taxation has increased from 1,985 to 4,685 millions of francs, *i.e.*, by 2,700 millions or about 150 per cent., and of this sum only 300 millions represent an increase in direct taxation, the customs duties alone having risen from 130 to 768 millions.*

It is impossible to doubt that this heavy and unequal burden of taxation has had its share in retarding the growth of the population of France in late years,† although other and more widespread causes have been doubtless at work. The French population, as Mr. Angell observes, has always increased but slowly; but the great reduction in the rate of increase did not occur until 1886–1887. Up to that date population starting from 1872 had grown at the rate of about 140,000 annually, which is not very different from the rate prevailing before the war.‡ In the year 1886–87 the increase was 30,000 only, and the figures have since remained nearly stationary. If the “natural increase” (*i.e.*, the excess of births over deaths) be alone regarded, it will be found that the change first occurred in the years 1890–94, when

* *Ibid.* M. Alfred Neymarck’s estimate of the annual savings of the French people at the present day is about £70,000,000 “in normal years,” not greatly in excess of Sir R. Giffen’s calculations in 1872. (“The Stock Exchange,” F. W. Hirst, p. 91.)

† Garnier (J.), “Du Principe de Population,” pp. 287, 293. See also Serrigny, “Les Conséquences Économiques,” p. 418 ff.

‡ From 1854 to 1869 the increase in the population of France was 2,160,000; from 1872 to 1887, 2,120,000; and from 1888 to 1903 it was only 830,000. The yearly averages for these three periods are respectively 143,000, 141,333, and 55,333.

there was actually an excess of *deaths* averaging about 4,000 per annum, followed by a slight recovery in the next five years, after which there was again a relapse. But the figures are extremely irregular. Thus an excess of deaths in 1895 of 17,800 is followed in 1896 by an excess of *births* of 93,000 and in 1897 of 108,000; and excess of deaths of 26,000 in 1900 by an excess of births in the next year amounting to 72,400. The supposition of Mr. Angell* that the great increase in Germany's population as compared with that of France is the reason of the relatively greater industrial progress of the former country in recent years is hardly tenable. This factor was in operation, as he himself notes, long before the war, when no such marked effects as have been lately witnessed were evident,† and it seems, on the whole, more legitimate to regard the increase of population as a result, rather than as a cause, of the material prosperity.

Before quitting this part of the subject, it is worth while to note that the facts set forth tend to modify Mr. Angell's views as to the interdependence of markets and the development of international credit.‡ He contends that this development is in the main the growth of the last thirty or forty years—of the generation that has come into being after the close of the Franco-German war. If by this statement is implied, as his argument seems to require, that at the earlier date the interconnection

* "The Great Illusion," p. 92.

† See, however, *infra*, p. 49.

‡ *Idem.*, p. 50.

scarcely existed, or was at the best rudimentary, it would appear to be an error. No doubt the growth and intricacy of international credit has enormously increased during the period indicated; but the machinery can hardly have been in its infancy even at its commencement. Without a very widely diffused and firmly established system of international credit it is doubtful if the payments of the indemnity instalments could have been made at all, and they certainly could not have been made without great monetary disturbances in the markets of Europe. "Aujourd'hui," says a writer of the period,* in words that have quite a modern ring, "plus que jamais, avec la facilité des communications, l'économie des transports, tous les marchés financiers sont solidaires les uns des autres." Indeed, clear indications of this "solidarity" ("organic continuity" is perhaps a better term) of the monetary world exist at a much earlier date: for we find that so far back as 1825 the Bank of France found it expedient to assist the Bank of England in the crisis of that year with a loan of £2,000,000 in order to replenish its reserves and save it from bankruptcy.

* Bonnet (Victor), *Revue des Deux Mondes*, July, 1874.

CHAPTER II

THE EXPENDITURE OF THE INDEMNITY

A comprehensive account of the manner in which the indemnity payments were utilised by Germany is given in Professor Adolph Wagner's essay, "Das Reichsfinanzwesen," which, however, deals in detail only with the sums allotted for imperial expenditure and with those appropriated to the use of the North German Confederation, of which Prussia was the principal member. These comprise the bulk of the payments, the amounts assigned to the other states being relatively unimportant. Shorter accounts of the matter are to be found in Wolowski's work, already alluded to, and in Kolb, "The Condition of Nations," of which there is an English translation by Mrs. Brewer (1880: the pages dealing with the expenditure of the indemnity are reprinted in Rand, "Selections Illustrating Economic History").

Of the total amount of £222,684,000, in round figures, dealt with in these accounts (which includes the separate indemnities paid by Paris and

other large cities) the Imperial expenditure was £102,000,000, leaving a balance of £119,859,000 for division among the several States. Of this balance the North German Confederation received £96,525,000, and the other States £23,334,000. For the expenditure of this latter amount, as already remarked, no details are given in the authorities cited, but it is stated generally by Kolb to have been spent mainly in repairing the damages resulting from the war and for military purposes.

Of the Imperial expenditure only about £22,500,000 was devoted to civil objects, viz., £1,200,000 for erecting buildings for the Reichstag, and the remainder for the acquisition and improvement of the Alsace-Lorraine railways and for the extension and equipment of the Wilhelm-Luxemburg line. Of the amounts allotted to the North German Confederation, a sum of £20,000,000 alone is not specifically appropriated, and may have been expended on objects of a civil nature.

Only a small amount of the funds devoted to military purposes could be immediately utilised for such ends, and a great part of the balance was in the meantime lent at interest through the agency of the German banks. Among the funds so dealt with were the Pension Fund for invalid soldiers, and those for the erection and repair of fortresses, amounting in the aggregate to something like £40,000,000, which were by a vote of the Reichstag placed at the uncontrolled disposition of the Imperial Chancellor.

Much contemporary and some later criticism has been directed at this and similar loan operations of the German government, and many writers have held it responsible for the disastrous speculation which ensued later and culminated in crises in Austria and Germany. Reasons will afterwards be given* for doubting the soundness of this view, and for concluding that the concentration of these large sums in the hands of the German government merely contributed to increase somewhat the severity of a movement which it did not initiate. All that need be here stated is that the funds at the disposal of the government appear to have been judiciously invested,† and that in the opinion of influential authorities it had really no option in the matter. “To have cooped up the French indemnity in cash,” wrote the *Economist* on 23rd December, 1872, “would have caused a financial famine‡ and financial ruin all through Europe.”

A certain amount of the indemnity was expended in the repayment of loans which had been raised at disadvantageous rates for the conduct of the late campaign, the debt of the North German Confederation (£13,000,000) being thus extinguished. It should also be mentioned that in order to provide against a sudden outbreak of war which was generally believed to be imminent as soon as the German

* See *infra*, chap. IV.

† See *Economist* (1873), p. 559.

‡ Note the implied admission that the indemnity funds, if they had not been paid to the German government, would have come into the investment market in the ordinary course. See *infra*, p. 34.

troops had evacuated French territory, a sum of £6,000,000 in gold was interned in the fortress of Spandau where it has remained to this day—a proceeding more suited to mediæval times than to an age of science.*

One of the chief uses which the French payments facilitated was the reform of the national currency. The subject has lost much of its importance at the present day, but a short statement of the facts may not be out of place. Before the war of 1870 the currency of the German states, with the exception of Bremen, was based on silver, only a small amount of gold being current.† Of the two silver coins which were legal tender, the thaler and the florin, the former was current in the northern and the latter in the southern states, but the diversity of denominations was in reality far more extensive. No less than seven separate systems were in vogue, and worn and foreign coin circulated freely. The condition of things closely resembled that described by Adam Smith in his well-known “Digression” as prevailing in Europe at the beginning of the seventeenth century, which gave rise to the “bank-money” of the Bank of Amsterdam. The “marco-banco” of the Bank of Hamburg was the same expedient, arising out of the same commercial necessities. It was of

* This measure is sometimes attempted to be defended by the exorbitant terms to which the German government was obliged to submit for financing the initial stages of the campaign (see *e.g.*, Ferraris, “L’indennita di guerra,” p. 468). But the difficulties were not likely to recur, and in any case the evil would be less than the loss of interest on so large a sum in perpetuity.

† The total gold coinage in 1871 was only about £4,500,000. Gold coins were first introduced by the Zollverein in 1857.

course a makeshift arrangement which no progressive community could permanently tolerate. But the expense of establishing a gold currency, involving—according to the ideas then prevalent—the replacement of the entire stock of silver coin by gold, was considered prohibitive. The silver current was estimated at about £72,000,000,* and to have acquired an equivalent stock of gold by the ordinary operations of the market was thought impossible before the advent of the French indemnity.

By the law of 4th December, 1871, a new gold coinage was created for the Empire, the unit of which was the reichsmark, equivalent in value to $\frac{1}{3}$ of a thaler. The question whether the single or the double standard should be adopted, though for a short time in doubt, was soon settled; the fall in silver which took place at this period was held to make the single gold standard inevitable, and it was voted by the Reichstag on the 9th July, 1873.

The practical difficulties, however, of the German government in effecting the change were very great, despite the assistance of the indemnity payments. Only a small portion of these, as has been seen, was in coin and a still smaller in gold. The balance had to be obtained in the market by the sale of silver or bills, with the result of still further depressing the cheaper metal and enhancing the value of the dearer. The German government is said to have lost 15 per cent. on sales of silver amounting to £32,000,000 up

* See Say, Report, p. 398, and the "Report of the Select Committee on the Depreciation of Silver," 1876, pp. lxii. ff.

to the year 1879 when they were stopped.* Nor was the trouble at an end with the acquisition of the gold, as contemporary authorities did not fail to point out. If the government accumulated it in its own vaults and let it out only just before the demonetisation of the silver, it would require an enormous stock such as was never got together in the world before, suffer an immense loss in interest, and cause a great tightness in the money market, to be followed later on, when the conversion was effected, by an equally great and sudden relaxation. If, on the other hand, it put the gold into circulation before demonetising the silver, it would be in danger of having to recoin the same gold over again, and never being able to demonetise the silver at all. The latter result did in fact happen to a considerable extent, and the German government, whose policy vacillated a good deal, appears finally to have adopted the method of issuing the gold more slowly and in such quantities as bankers and others who kept stocks of the precious metals were likely to retain for a considerable period in their reserves. The policy was not entirely successful. The South German florins were quickly got in; but the demonetisation

* Mulhall, "Progress of the World," p. 30. See also "Report of the Select Committee on the Depreciation of Silver" (1876), p. 125, and further elaborate details up to 1878 in Cayla, *Journal des Economistes*, November, 1885. The total cost of the coinage operations up to that date is estimated at about 18,000,000 marks, and the cost when completed at about 77,000,000 marks, or something under £4,000,000, no very great sum for an enterprise of this magnitude. It is to be remembered that the new gold replaced not merely the old silver but also notes and State paper below £5 in value, which were withdrawn from circulation.

of the thaler proved a slow and tedious process. Contrary to the original intention, it had to be retained as currency after the prescribed date of 1st January, 1876, and it did not cease to be legal tender until the close of 1908.

The currency reforms were of inestimable benefit to the nation, and the services which the indemnity rendered in this respect cannot altogether be discounted, as some modern writers suggest, by the consideration that the conversion might have been effected without their aid. This is no doubt true. According to the methods with which recent experience in British India and some other countries has familiarized us, the German mints might have been closed to silver and the existing coinage kept on a par with gold through the medium of the foreign exchanges. Under this system, which is known as the "gold exchange standard," the State undertakes to give drafts payable abroad at a fixed rate in gold (but not gold itself) in place of its silver coin. The currency which it thus receives it keeps out of circulation until the price of foreign exchange falls. The silver coinage of the country thus becomes merely a token currency ("metallic bank notes" as an American writer puts it) and the advantages of a gold standard are obtained without the expense of a gold coinage, which can if desired be introduced by degrees as the profits from the silver coinage accumulate. The system, at any rate as a means of transition from one standard to another, appears to be thoroughly successful, and might easily have been put in force at the time by Germany,

which had large balances in gold at the Bank of England.

But in 1873 no such system was known, at any rate generally,* to the authorities who had charge of the financial destinies of Europe. The only means which experience suggested was re-coinage of the existing stocks, and to this end the French funds, though not, perhaps, indispensable, lent considerable assistance, if only by emboldening Germany to proceed with an enterprise she might have lacked courage to undertake. The connection of the currency changes of the period with the indemnity is thus purely accidental and affords no precedent for the future. But it must not be forgotten that while in progress they had a depressing effect on prices and profits and reduced to a considerable extent the gold reserves of the one nation which, then as now, was the world's banker.† They thus played no inconsiderable part in aggravating the depression of the years following the war, which many writers of the period, as will shortly be seen, erroneously attributed to the indemnity itself. There were, of course, alleviations even in this respect. The low prices were of advantage to the consumer (though it is still a moot point whether

* Ricardo had made a pregnant suggestion in his pamphlet "Proposals for an Economical and Secure Currency," published in 1816, and a system similar to that afterwards adopted in British India had been long in force in Java.

† The gold reserve of the Bank of England remained stationary up to about 1890, while the reserves of the Bank of France, of the Reichsbank, and of the United States Treasury increased enormously. Layton, "Introduction to the Study of Prices," pp. 139, 140.

the labouring classes benefit most from falling or from rising prices), and the gap in the gold reserves was partially filled by a great extension in England of the employment of credit instruments and other economising expedients, which though they are ultimately limited by the supply of the precious metals, are elastic up to a certain point. But when all is said and done it still remains that the demands of Germany—and it must be added of other continental nations and the United States—for gold at a time when the supply from the mines was diminishing, is a factor that has to be allowed its due weight in connection with the events of the decade succeeding the Franco-German war.*

* A very complete bibliography of works on Currency and kindred subjects is to be found in Soetbeer's "Litteraturnachweis über Geld- und Münzwesen" (Berlin, 1892), and a comprehensive account of the German Currency changes in the "Report of the Select Committee of the House of Commons on the Depreciation of Silver" (1876).

CHAPTER III

ECONOMIC RESULTS

The immediate results of the payment of the indemnity, so far as they can be disentangled from the consequences of the war itself and the cession of the two provinces, are to be sought in the events of the succeeding decade. They have been shortly summed up, from one point of view, in a well known passage of "The Great Illusion," in which the writer reflects the prevalent opinion of French writers and politicians contemporary with the events. "The decade from 1870-1880 was for France a great recuperation period, and for Germany, after a boom in 1872, one of great depression."* M. Lavissee, in an article in the *Revue des Deux Mondes*,† tells us that it was popularly believed that Germany was seriously contemplating the return of

* In the latest edition the wording of this passage has been somewhat altered. "The decade from 1870-1880 was for France a great recuperative period, although for other nations in Europe one of great depression, notably, after the boom of 1872, for Germany."

† November, 1876, p. 373.

the indemnity, and was only deterred by fear of a probable rebuff. France would in fact refuse to take back "les milliards empoisonnés"! The French economist Wolowski, writing in the *Journal des Économistes* in December, 1874, though of course not subscribing to the popular delusion as to Germany's intentions, yet thought that the effects of the indemnity had been on the whole injurious to the country, and saw in the results a confirmation of Adam Smith's supposed dictum that the only source of national wealth is the labour of the community.

The obvious criticism of these and similar utterances of the time is that they deal with the facts from too narrow a standpoint. The existing depression is regarded almost entirely as if it had affected France and Germany alone. The crisis, however, which set in in 1873 was not confined to the two nations recently at war, or even to the continent of Europe; it was world-wide in its sweep. The most prominent feature of the prevailing depression, as Sir Robert Giffen noted in 1877, was its universality. Almost every civilised country in the world had been affected, even to the United States and the republics of South America. Nor was France alone in "escaping perhaps with little hurt"; a like good fortune attended Spain and Italy. Reference may also be made to a paper read by Mr. Mundella at a meeting of the Statistical Society in 1878 and to the discussion that followed: the world-wide character of the crisis was fully recognised by that learned body. Again, M. Block, in the article in the *Revue des Deux Mondes* from

which Mr. Angell quotes, makes the important admission that the crisis had two foci, in Europe and in America, and candidly adds that it was not certain that even in Europe the war was the true "point de départ," though it no doubt aggravated the intensity of the movement when it had once commenced.* In his opinion the real cause was to be found in the limits of human capacity. Although he did not use the actual words, he anticipated the idea which the editor of the *Revue* afterwards crystallised in a famous phrase—"the bankruptcy of science." The Industrial Revolution had almost spent itself; the pace had been too fast to last: man's mastery over nature could not be carried much further, and the utmost that human ingenuity could hope to effect in the future would be to improve in some slight degree the details of what had been already won. In a word, that "stationary state" which the Victorian economists had long anticipated was now looming in the horizon. Fantastic as these views appear to-day they show that some at least among contemporary French writers were driven by the logic of events to take a wider outlook than they desired, and were compelled to regard the crisis as by no means confined to France and Germany.

If we examine the dates of the principal events of this period, it will be found, *first*, that the depression started neither on French nor on German soil but in Austria. The failure in May, 1873, of the Bank of Vienna caused a panic on the Bourse which

* This was also the opinion of Wagner ("Das Reichsfinanzwesen," p. 229).

undoubtedly seriously affected both Germany and Austria. There is no reason to regard the French milliards as the primary cause of the Austrian disaster, nor do contemporary accounts so regard them. They concur in tracing the origin of the speculative mania of the time to the period immediately following the battle of Sadowa, and to the impetus caused by the removal in Germany of the restrictions formerly imposed on the formation of new joint-stock companies.* The financial operations of the German Government, in prolonging the period of cheap money which had set in in 1867, may perhaps have added to the intensity of the speculative movement; but, after all, it was the existence of the milliards, rather than the accident of the German Government being the channel for their distribution, which was the real reason of the monetary situation. There is no good ground for supposing that had they remained in French hands they would have been withheld from the market.†

* Block, *Revue des Deux Mondes*, March, 1879, p. 435. He is, however, of opinion that as the preliminary authorisation of joint-stock companies was still retained in Austria, its abolition in Germany must have been without effect in increasing speculation. But on his own showing the authorisation in Austria was an ineffective formality. He notes that between 1867 and 1873 no less than 1,005 new companies were formed of which only 547 could be characterised as "more or less" sound. These, together with 135 others which failed shortly after flotation had a paid-up capital of 1,800,000,000 francs, and the nominal capital for which their shareholders were liable was 8,400,000,000 francs. It is perhaps worth noting that in this case it was the country which *paid* the indemnity in which speculation was rife. See also *Économiste Français*, 1873, p. 171.

† See *supra*, p. 24 n. The milliards were subscribed mainly by the investing classes and not from the "stockings," *Bankers' Magazine* (1872), p. 742.

The French public, as has been already seen, was a large investor in foreign securities, and, indeed, to have kept back the indemnity funds would have precipitated rather than averted a crisis, the true remedy for which, as Bagehot has taught us, is to lend freely to sound concerns and on good security. The events in Vienna in the "black May" of 1873—one hundred and eighty stock-exchange failures in two days and the closing of the Bourse on the third—were in large part due to the laxity of the Austrian government and of its banking institutions. While the Berlin banks had adopted stringent measures for dealing with the situation—in December, 1872, the Bank of Prussia refused to discount the securities of concerns known to be speculative, and the legislature had prohibited the establishment of new banks of issue and proposed to put the old ones under central control—the Austrian government held its hands, and the speculators driven from Berlin took refuge in Vienna, where in the first four months of 1873 new companies were created with a capital of £50,000,000. It is important, however, to note that the disaster was purely financial, and that the industry and commerce of the country were hardly affected. The Vienna correspondent of the *Économiste Français*, writing on the 6th May, a week after the closing of the Bourse, was able to report that there had not been a single case of commercial failure, and no instance of any commercial bills being refused payment on maturity, facts of which, as he justly observed, the importance could hardly be exaggerated. A month later, the same

correspondent records for the whole of May, the failure of a single cotton-spinner.*

In the *second* place, it would seem that the German Bourse would not have been affected to a very great extent by the Vienna catastrophe, had it not been for the subsequent crash in the United States in October of the same year. The Berlin correspondent of the *Times* noted in June, 1873, that the financial pressure was diminishing, though the situation was not entirely satisfactory. The American *débacle*, which was purely of local origin and on an appalling scale, changed the situation entirely. During the civil war in the States, German financiers, with great foresight, had steadily backed the cause of the North and invested largely in its securities. The blow was severe and unexpected, and it is from the latter rather than from the earlier incident that the German depression is really to be reckoned.

It seems therefore plainly incorrect to regard the disasters in Germany as entirely, or even mainly, due to the receipt of the French indemnity. The situation in that country was merely one aspect of a world-wide depression, the result of a period of over-production and consequent speculation.† Large sums had been expended in developing new countries, whose sole or chief product was raw material, out of the accumulated capital of the old. "The favourite business for many years before 1873 had become that of foreign investment, and now the

* See *Économiste Français*, 7th June, 1873, p. 220.

† See Giffen, "The Liquidations of 1873-76."

depression occurs where there was the greatest expansion The great multiplication of foreign loans in the period is now familiar. Not to speak of Turkish and other loans, which were largely borrowings to pay interest, there is a loan of £32,000,000 for Egypt, after there had been large loans in 1868 and 1870; Chili in the same time (1867-1873) borrowed £5,250,000; Peru, £24,000,000; Brazil, £10,000,000; Russia £77,000,000; and Hungary, £22,000,000—exclusive of minor borrowings by guaranteed companies and otherwise The minor borrowings we have referred to were equally important, if not more important, and, especially in the case of the United States the aggregate of small loans for railways and other purposes was immense. All this direct borrowing likewise implied a great investment of capital privately in foreign countries The result was a luxuriant industrial growth in the new countries Thus, in the United States, immediately before 1873, the length of the whole railway system had been doubled in seven years; in Russia almost the entire system of 12,000 miles had been created since 1868; in Austria there had been an increase from 2,200 miles in 1865, to over 6,000 miles in 1873; and in South America, Brazil, the River Plate republics, Chili, and Peru, had all been endowed with railways in a very few years And never was there a more rapid development of the foreign trade of the United Kingdom That there has been a most disproportionate stoppage of the foreign investment business

is also very obvious We have unmistakable evidence of the decline in foreign investment business in the financial and industrial embarrassments in new countries, of which, as I write, the great railway strikes in the United States furnish a new illustration." ("The Liquidations of 1873-1876," by Sir Robert Giffen.) The period of depression which the world in general was then passing through was evidently due to this sudden cessation of the previous over-production, though the European speculation and the building mania in Berlin in particular had been doubtless aggravated by the popular delusions connected with the receipt of the French milliards, and still more by the new sense of security* which the German victories had legitimately engendered. France was spared the full effects of the crisis, partly owing to the cautious habits of the people in general, and perhaps because the floating of the two war loans had absorbed much French capital†; but also, in great measure, in

* Lavollée, quoting the report of a British Secretary of Legation at Darmstadt, notes "Cette espèce de cauchemar, dans lequel la crainte toujours présente d'une invasion française tenait le sud et l'ouest de l'Allemagne, a disparu depuis la défaite des armées françaises et l'extension des frontières *Le sentiment de sécurité qui en est résulté* a eu pour conséquence une notable hausse des terrains, surtout des maisons et par suite des loyers; cette hausse, jointe à l'augmentation d'impôts qu'a nécessitée la réorganisation de l'armée depuis la proclamation de l'Empire, cause un renchérissement général." "Les classes ouvrières en Europe," p. 47.

† See the *Economist* (1873), p. 592. "The very inconveniences produced by the floating of the large government loans of 1871 and 1872 has in fact preserved the Paris market from the dangers of exaggerated speculation." It is a little difficult to reconcile this dictum with the notorious over-subscription of the loans in question (see *supra*, p. 9).

consequence of the recent opening of the Suez Canal which favoured the trade of Marseilles, and directed into the channels of domestic production funds that would have otherwise found an outlet in foreign enterprises. The same cause would also seem to have been at work in the case of Italy, and, in a lesser degree, of Spain, two countries which possessed Mediterranean ports and have already been mentioned as but slightly affected by the prevailing depression.

In any case the recovery of France from the effects of the war would probably have been rapid. Such recovery, as Mill had pointed out long before in a well-known, but periodically forgotten, passage of his "Principles of Political Economy," is quite a common phenomenon, the simple explanation of which lies in the perpetual consumption and reproduction which is the normal condition of capital. "What the enemy have destroyed"—in the case of the indemnity, we may add "or appropriated"—"would have been destroyed in a little time by the inhabitants themselves: the wealth which they reproduce would have needed to be reproduced, and would have been reproduced, in any case, and probably in as short a time. Nothing is changed, except that during the reproduction they have not now the advantage of consuming what had been produced previously. The possibility of a rapid repair of their disasters mainly depends on whether the country has been depopulated. If its effective population have not been extirpated at the time and are not starved afterwards; then, with the same

skill and knowledge that they had before, with their land and its permanent improvements undestroyed, and the more durable buildings probably unimpaired or only partially injured, they have nearly all the requisites for their former amount of production.”* It is important to observe, what writers of the period seem frequently to forget, that this reasoning applies with equal and perhaps even greater force to the case of commercial panics, which, unlike war, are not attended with wholesale loss of valuable lives. The anticipations of French writers as to the permanent effects of the commercial depression in Germany proved as short-sighted as the calculations of German statesmen in regard to the consequences to France of the exaction of the indemnity. Unprejudiced observers took a much more balanced view. Giffen, while inclined on his estimate of the past rate of saving of the French nation to give it ten years to recover from the effects of the war, thought that all the chances were that the past rate of saving would be increased; and he took an equally hopeful view of the commercial depression of the later period, which, as has been seen, he did not regard as in any way peculiar to Germany.

In endeavouring to institute a detailed comparison of the relative progress of France and Germany during the ten years that followed the war one is greatly hampered by the paucity of

* Book I, Ch. V, sec. 7 (pp. 74, 75, of Prof. Ashley's edition). So also Giffen (“The Cost of the Franco-German War,” sec. 14), “It is in this way, as a rule, that war is so quickly recovered from. A large portion of the cost figures only as so much privation of those who carry it on.”

official statistics of the newly constituted empire. Records of imports and exports and of the production and consumption of the principal raw materials and manufactures of the various states composing the Zollverein had been kept for a considerable period, and were continued as a rule after the states had been incorporated in the Empire ; but there is no complete account of the foreign trade of Germany as a whole before 1880, and no trustworthy record of wages or emigration till a much later date. The more important statistics which exist are admirably summarized in " The Statistical Tables and Charts relating to British and Foreign Trade and Industry, 1854-1908 " (Cd. 4954), and some additional information is to be found in the two " Fiscal Blue-books " (Cd. 1761 and 2337) of 1903 and 1904. Mulhall's " Balance Sheet of the World, 1870-1880," contains a mass of statistics for the two years indicated, though not for the intervening period. German index numbers of wholesale prices may be found in Mr. W. T. Layton's " Introduction to the Study of Prices " (1912), and those for France in MM. Say and Chailley's " Nouveau Dictionnaire d'Économie Politique " (1893), Art. " Prix."

An examination of these sources of information does not seem to confirm the dictum that the period was one of recuperation for France and of depression for Germany. It tends, on the contrary, to show that the antithesis is misleading, and that the period was one of recuperation for both countries. Nor can it even be said that the recovery of France

from the effects of the war was more rapid than that of Germany. So far as statistics are available they would seem on the whole to indicate that both countries recovered at approximately equal rates, that of Germany being, if anything, the more rapid of the two. Comparing the five-yearly averages for 1865-1869, 1870-1874, and 1875-1879, of which the middle quinquennium includes the year of the war itself, we find, for instance, that the consumption of cotton per head of the population* was in Germany, 3·6, 5·8, and 6·1 lbs. for these three periods ; while the corresponding figures for France were 4·9, 4·7, and 5·5 lbs. The consumption of coal similarly rose from 0·63 to 0·79 and 0·89 tons per head ; the figures for France being 0·32, 0·41, and 0·44 tons. In the consumption of pig-iron the figures for Germany were 0·03, 0·04, and 0·05 tons, as against 0·03, 0·03, and 0·04 tons for France. If we turn to the important item of shipping, we find that the tonnage on the German register increased absolutely between the two latter periods (there are no figures available for the first period) from 1·014 to 1·121 million tons ; while the French tonnage seemingly *decreased* in the same period from 1·069 to 0·987 millions. These figures, however, do not quite accurately represent the facts, since both countries were replacing sailing ships by steamers. If we take Mulhall's ratio of 1 : 5† for the carrying

* The figures are given as far as possible per head of the population in order to avoid difficulties of interpretation connected with the transfer of the population of Alsace-Lorraine. ~

† The Board of Trade in the "First Fiscal Blue-book" (Cd. 1761) adopts the ratio 1 : 4. See p. 101 n.

capacities of the two classes of vessels, we arrive at his conclusion that the French mercantile marine had increased in real effectiveness from 1,598,000 to 1,960,000 tons, or by $22\frac{1}{2}$ per cent., while that of Germany had increased from 1,310,000 to 1,955,000 tons or by 50 per cent. Thus, though the French shipping was still some 5,000 tons in excess of the German, the rate of increase was nearly two and a quarter times as great in the latter country, which started at a slightly lower level. The tonnage entered and cleared at French ports increased more rapidly than at those of Germany, but almost entirely in foreign vessels, and of these the greater part were British. The increase was obviously due to the opening of the Suez Canal, which, for the time being, favoured the ports of the Mediterranean rather than those of the North Sea.

An instructive table, compiled by the late Mr. Newmarch, showing the railway mileage open in various countries is to be found in the *Royal Statistical Society's Journal* for 1888 (vol. 41). It shows that in 1865 Germany had 8,000 and in 1875 22,000 miles open for traffic. The corresponding figures for France were 8,394 and 12,000 respectively. In 1861 there were 42,000 miles of telegraph in France, and in 1875, 78,000. In Germany the figures were 45,000 in 1867, and 82,000 in 1875.

Mulhall gives the following comparative table for the years 1869 and 1880 :—

	BALANCE-SHEET OF GERMANY.				BALANCE-SHEET OF FRANCE.			
	Million £.		Shillings per head.		Million £.		Shillings per head.	
	1869.	1880.	1869.	1880.	1869.	1880.	1869.	1880.
Commerce.. ..	270	384	142	170	249	332	129	177
Manufactures ..	341	427	180	189	439	485	231	262
Mining	14	21	7	9	9	12	5	6
Agriculture ..	310	340	163	151	412	400	217	216
Carrying Trade ..	38	64	20	28	33	50	17	27
Banking	25	28	13	12	30	34	16	18
Sundries	4	5	2	2	9	12	5	6
Total	1,002	1,269	527	561	1,181	1,325	620	712
Increase	27 per cent.		6½ per cent.		11 per cent.		15 per cent.	

It will be noticed that while the total increase for Germany was 27 per cent. there was an increase of only 11 per cent. in the case of France. Mulhall, however, considers that this excess in the case of Germany was mainly due to the increase of the German population by $18\frac{1}{2}$ per cent. in the decade as against $14\frac{1}{2}$ per cent. in the previous ten years, and that if the figures *per capita* be regarded they give an opposite result, viz., $6\frac{1}{2}$ per cent. for Germany as against 15 per cent. for France. At first sight this might seem to show that progress was more rapid in France than in Germany. But on reflection it will be seen that in estimating the effects produced in so short a period as a decade, the *per capita* test is fallacious. Only the adult population added in the ten years, which almost wholly consisted of the adult inhabitants of the transferred provinces, not greatly exceeding a million, can legitimately be taken into account. The natural increase—the excess of the births over the deaths—would be composed of young children, who, so far from being a

source of strength to the production of the country, would be a clog upon it. The net emigration, according to Mulhall, for these years averaged about 98,700 annually, and the total would thus about balance the accession of adults contributed by Alsace-Lorraine. The totals already given, representing percentage increases of 27 and 11 for Germany and France respectively, would seem to reflect the relative conditions of industry and commerce in the two countries more fairly than the figures per head of the population. The ratio— $2\frac{1}{2}$ to 1—is almost identical with that already found for the shipping of the two countries in the same interval of time.*

The capital of Germany, according to the same authority, increased during this period by £725,000,000 of which he allows £280,000,000 for Alsace-Lorraine, leaving a balance of £445,000,000 for the rest of the Empire—not a bad result for a time generally reckoned as one of severe depression. It may be said that a good deal of this capital

* Curiously enough it is also the ratio of the comparative increase of the two nations in *fixed* steam-power in the decade before the war, as given by Mulhall. The following table shows the fixed steam-power at various periods; the *total* steam-power is given, *infra*, p. 49 :—

H.P. (000 omitted).

Years.	1840.	1850.	1860.	1870.	1880.
France, ...	34	67	181	341	529(a)
Germany ...	20	40	200	900	1,680

(a) This figure is not given in Mulhall's tables but is calculated from that for 1878 (492) by assuming that the rate for 1870-78 continued for the next two years.

increase was mere speculative construction, greatly in excess of the economic necessities of the time. Although this may be true, it does not follow that all capital locked up in forms not immediately remunerative would be ultimately lost to the nation, as a good deal doubtless proved of benefit in later years when the volume of trade and commerce had reached higher levels.

The statistics of price give much the same result. The index number for Germany for 1870 (see Layton, p. 117) was 111, the prices of 1900 being taken as the base. If for the purpose of comparison we reduce the index-numbers given by Say and Chailley for France and England so that all three countries start at the same level in 1870, we shall find a very rapid rise in Germany, reaching its culmination in 1873—a less but still considerable rise in the United Kingdom also reaching the highest point in that year—and a rise in France intermediate between the two, the highest point attained being in 1872.* From that point to the year 1879 there was a continuous fall in all three countries; in the latter year all had reached much the same level.

It is difficult to make a comparison of the movements of real and nominal wages in France and Germany at this time, for the German material is exceedingly scanty, and is practically confined to

* See Tables I and II, *infra*, pp. 47, 48. The figures represent merely the course or general trend of prices in the several countries and are not comparable *inter se*. The French 110, for instance, is not necessarily less than the German 135.

the records of a single establishment, that of Messrs. Krupp at Essen, for which complete materials exist, coupled with some slight evidence of a corroborative nature to be deduced from the wages of Prussian foresters and of masons at Berlin. The data are to be found at p. 280 of the "First Fiscal Blue-book" (Cd. 1761, Table VIII). The French figures are much ampler and are given at pp. 278 and 279 of the same publication. The figures taken for comparison with those of Germany are those given as the average of skilled trades in the last column at the top of p. 279. Dividing the figures representing wages in each case by the appropriate index number for prices, we get figures which correspond to the movement of real wages. The following tables, which must be taken, as already explained, with great reservations in consequence of the limited character and imperfections of the German data, are the result:—

TABLE I.
Prices and Wages in Germany.

Year.	Prices (1900 = 100).	Nominal (Money) Wages (1900 = 100).	Real Wages.
1870 ...	111	64	·581
1871 ..	117	63	·540
1872 ...	130	71	·545
1873 ...	135	78	·576
1874 ...	124	81	·653
1875 ...	116	81	·695
1876 ...	113	76	·672
1877 ...	113·5	70	·616
1878 ...	104	67	·654
1879 ...	94·5	63	·666
1880 ...	105·5	67	·635

TABLE II.

Prices and Wages in France.

Year.	Prices (1900 = 100).	Nominal (Money) Wages (1900 = 100).	Real Wages.
1870 ...	Not Available.	Not Available.	Not Available
1871 ...	104	74	·712
1872 ...	111	74·5	·672
1873 ...	110	75	·682
1874 ...	101	75	·743
1875 ...	102	75	·735
1876 ...	100	76·5	·765
1877 ...	102	78·5	·785
1878 ...	89	79	·870
1879 ...	86	79	·920
1880 ...	80	84	1·050

N.B.—The column “real wages” is obtained by dividing the second column, which represents nominal wages, by the first column representing prices.

From these tables it is apparent that both wages and prices fell in Germany after the boom of 1871–1873, but as the latter fell more rapidly than the former there was a considerable rise in real wages throughout: the index for real wages being ·576 in 1873 and ·635 in 1880. In France the rise between the years named was even more rapid, from ·682 to 1·050. The greater part of this rise occurred between 1878 and 1880, and is due to the greater fall in French prices in those years. It must not be forgotten that the German wages are those of an armament firm and in all probability considerably above the general level of skilled labour. This would not affect their relative value in successive years, and, as the cessation of the war could not but curtail to a great extent the activities of the firm, the

chances are that wages in other skilled trades rose to an even greater extent.

Lastly, the following data, extracted from Mulhall's "Dictionary of Statistics" (1892), show the approximate steam-power of France and Germany at various dates :—

H.P. (ooo omitted).

Years.	1840.	1850.	1860.	1870.	1880.	1888.
France	90	370	1,120	1,850	3,070	4,520
Germany	40	260	850	2,480	5,120	6,200

These figures are remarkable, and indicate solid advance and not merely speculation. They seem to show that the progress of Germany, after the early days of the Zollverein, was far more rapid than that of France, though it attracted little or no public attention, and that by 1870 her industrial supremacy, so far as it can be estimated in terms of steam-power over her rival was complete. The real *Gründjahre* for Germany are not the ten years that followed the war with France, but the two decades from 1840 to 1860.

The preceding survey seems to show, as far as the imperfect data will permit, that the fears and apprehensions entertained at the time as to the severity and extent of the prevailing depression were as greatly exaggerated in regard to Germany, as Sir Robert Giffen had shown similar apprehensions to be in the case of the United Kingdom.

Speculation in reality had only touched a very small part of the community, and the mass of German trade was quite sound ; and, what is of still greater importance, the wages of the bulk of the population, the great consuming class on whose prosperity trade and industry in the long run depend, had steadily risen. These conclusions do not depend entirely on the statistics already given. They are confirmed by the general impressions of contemporary observers. Thus M. Lavissee, writing in the *Revue des Deux Mondes* in 1876, points out that it was a pure delusion to suppose that Germany was ruined ; on the contrary, sound concerns were slowly recovering, bankruptcies and discharges of workmen lessening in frequency, and wages though less high than in the boom years which followed the war, had not dropped to their previous level, proving that employers were able to pay them and that industry was in no danger.

There is one circumstance that may at first sight appear to militate against these conclusions. The *new* deposits (not the *total* deposits) in the German savings' banks decreased between 1872 and 1877 from 42·3 to 28·2 of the whole.* But this fact appears at the most to show, what is undeniable, that the prosperity of the later years was not equal to that of the earlier period, when things were booming and the wages of skilled artisans, as contemporary writers note with surprise, exceeded those of the professional classes and government officials

* See Block (Maurice), *Revue des Deux Mondes*, March, 1879.

of a much higher social grade. There was no increase in the withdrawals (as there certainly would have been, had there been any great distress) and a rise of the deposits by even 28 per cent. appears to be quite a respectable one, and only poor by comparison with the inflated figures of previous years. It would be quite consistent with a state of considerable prosperity, and might indicate that depositors were placing the bulk of their savings elsewhere to greater advantage.

In any case the German figures, as a whole, afford no countenance to the theory that great commercial depression prevailed throughout the country. The magnitude of the financial collapse, as Giffen remarked in the case of the United Kingdom, was of course very great, and the social effects and disasters of the most serious kind; but the accumulations and the real wealth of the country were not materially affected. "The depression of trade attending a financial collapse ought not to be measured by the seeming magnitude of the collapse itself, which may be very great without the ordinary industry of the country being seriously checked." The truth of these remarks has already been strikingly illustrated in the case of the Austrian crisis of 1873.* Another eminent statistician, Mulhall, wrote in 1881 that "the period of ten years just come to a close have been one of marvellous industrial activity . . . and an almost unchequered career of prosperity and growing

* See *supra*, p. 35.

wealth."* He makes no allusion throughout the book to the financial depression of the intervening years, and none of his elaborate tables show the faintest indications of its having taken place, unless these are to be found in the comparatively slight increase in banking in continental countries.

* "Balance Sheet of the World for Ten Years, 1870-1880."

CHAPTER IV

GENERAL CONCLUSIONS

If the preceding analysis is even approximately correct, it would seem to dispel the idea that there is any specific virus in an indemnity exacted from a conquered nation, which renders it, like the fabled shirt of Nessus, a source of injury to the country which receives it. It is true that the wealth of nations, as Adam Smith all but saw, and modern economists have brought into clearer light, depends—so far as foreign trade enters into the question at all—on an international division of labour, and that any sudden disruption of capital, especially a forcible disruption attended by a shock to credit, cannot but have a serious effect upon the mutual arrangements in which that division of labour consists. The increased taxation to which the nation paying the indemnity has to resort in order not merely to cover the actual amount of the exaction itself but as an insurance against such exactions in the future, is an addition to the national expenses of production in

the country victimised. All nations dealing with it—including the country which receives the indemnity—would obtain their imports on less favourable terms than formerly, or would have to resort elsewhere for them, presumably at a disadvantage. To take the concrete case, Germany would have had to pay more highly for French imports in consequence of the additional burdens imposed on French industry as a result of the war. All other nations would be in the same predicament. In so far as French imports were necessary to their own production (and in addition if they found it necessary to ensure against similar risks in their own case) Germany would have to pay more heavily for such imports as she required from them. The injury, to quote the expressive phrase of a writer* hostile to pacifist views, would “reverberate throughout the entire community, returning in due force upon the victor.” This is the real distinction, which Mr. Angell’s critics commonly fail to apprehend, between a predatory exaction in the nature of ransom and a loan for productive purposes bearing interest. In the one case there is a “reverberatory shock”; in the other there is none. In the first case the productive resources of the community have been injured; in the second they have been stimulated.

Sir Robert Giffen was, therefore, quite justified in predicting that Germany would not gain from the

* Admiral A. T. Mahan, in *The North American Review*, March, 1912, p. 324.

indemnity all that France would lose, although his opinion was based to a great extent on doctrines of "laissez faire" which have lost a good deal of their force at the present day. But it is important not to exaggerate the cogency of the argument above developed. States may, like individuals, gain advantage by appropriating the capital of their neighbours; the international relations merely prevent that advantage from being so great as it otherwise might have been. To those who are inclined to attribute the financial troubles of Germany in the decade succeeding the war mainly to the receipt of the indemnity, it is legitimate to answer that no generally satisfactory explanation has been put forward of the paradox, though Mr. Angell has stated some considerations that may have weight with the adherents of the protectionist creed.* The early French writers—Wolowski, for example—adopt a somewhat fantastic theory, based upon a misunderstanding of Adam Smith's doctrine, that labour is the true source of wealth. That all wealth is ultimately derived from labour does not imply that it must have been produced by the labour of the person who enjoys or utilises it. It may, for instance, have been inherited. Nor would the author of "The Wealth of Nations" have denied that the tribute paid by a conquered

* See "The Great Illusion" (ed. 1912), p. 84. The emphasis laid on these arguments in the earlier editions has been much modified, and Mr. Angell now frankly admits that the free-trader escapes his dilemma altogether. Even from the protectionist standpoint it is hardly so formidable as he imagines: tariff reformers have wriggled out of worse holes than this.

nation might augment the wealth of the conqueror. Strangely enough, he never thinks of the world as a community of nations or applies to it as a whole his favourite doctrine of the division of labour, though there are to be found many passages in which he comes within an ace of this illuminating conception.* He would not, one would think, have entirely assented to the view which Wolowski seeks to father upon him, that the only national wealth that is not injurious is that which accrues slowly and "digs its own channels." The notion is rather an echo of Darwin than a doctrine of Adam Smith. There may be an element of truth in it, but as applied to modern nations and present-day accumulations of capital it has little force. In any nascent and progressive community there must always be a great number of sound commercial enterprises ready for immediate execution and only held in abeyance till sufficient capital be forthcoming. The actual course of events in Germany exemplifies this. Wolowski does not contend that the sums lent to the banks and by them to the public were not soundly invested, or that the transactions resulted in loss. The real gravamen of his argument appears to be, not that there were no channels available for profitable investment of the indemnity payments, but that the legitimate investment operations of the government gave a fillip to illegitimate speculation among the people at large.

* It was much more clearly apprehended by David Hume : see his essay on "The Jealousy of Trade."

To the argument thus interpreted a sufficient answer has been given by other French writers as well as by the German economist Adolph Wagner. In substance it is this, that measures could have been taken to check rash speculation and to disabuse people of the notion that the receipt of the milliards by the State implied a plethora of capital for its individual inhabitants. We have already seen, on the occasion of the Austrian crisis, that the German banks and the government were able to act effectively in this direction. On the present occasion the danger does not appear to have been foreseen. "The State," says M. Lavissee, "did nothing to warn the public against the dangerous illusions prevalent at the time. It acted merely as a banker who seeks only the highest interest for its money."* So too, the modern writer, Serrigny: "Of a truth, had it not been for the faults committed by the (German) government, for the shortness of the period allowed for the payment of the indemnity, and for the clumsy precipitancy with which our gold was thrown into circulation, the crisis, with its attendant train of ruin and bankruptcy, might have been altogether averted or at least greatly minimised."† And Wagner points out that while, had it been possible, the best method of employing the indemnity would have been the undertaking by the state of productive works on an extensive scale, the next best plan would have been to invest it in

* Lavissee, *Revue des Deux Mondes*, Nov., 1876.

† "Les Conséquences, &c.," p. 412.

foreign rather than in domestic securities—a policy that would not have had the effect of encouraging popular delusions, but the reverse.*

On the other hand, some modern writers have attributed a great regenerating influence to the French milliards, which they speak of as a stream, fertilising material enterprises of all kinds that otherwise would have been badly handicapped for want of capital. This view appears to err in the opposite direction to the one just dealt with. Foreign capital for German industrial development would have been forthcoming in any case, including probably the greater portion of the French milliards themselves; it would have been attracted to the new empire by the increased activity in commerce to which the now assured security of the country infallibly led. It was hardly a matter of great moment to business men in Germany whether they paid interest to foreign capitalists or to their own government. And even as regards native capital the allegations of its paucity at this period seem to be considerably exaggerated. If there was no capital forthcoming, how could there be speculation—especially disastrous speculation? M. Serrigny, to whose book reference has been already made, notes that the total amount of fresh issues during the period of speculation following the war was estimated at 20 milliards, and his final conclusion is that while the state gained the five milliards, an equal amount was lost by German

* "Das Reichsfinanzwesen," p. 230.

citizens.* If these figures are even approximately correct there can have been no lack of capital at the time; a conclusion which other indications already noted go to confirm.†

The great and seemingly sudden development of German industries and commerce after 1879, when the period of depression came to a close, has rather tended to obscure the real nature of the facts. The American author of an excellent little essay on *The cause and extent of the recent industrial progress of Germany*, acutely points out that "Probably the most important cause of Germany's backwardness was her geographical position in the centre of Europe, which condemned her to be the battle-ground of the Continent."‡ He goes on to show that before the Thirty Years' War she enjoyed a considerable prosperity which that war destroyed, by extinguishing all industrial activity and reducing the population at

* If by *loss* is meant *net loss*, the statement appears to be an exaggeration. At any rate the increase of capital between 1869 and 1880, according to Mulhall, was £445 millions or a little over 111 milliards. If the German citizens really lost 5 milliards in speculation they must have made great gains in other enterprises. Serrigny is evidently only taking account of the unsuccessful speculations.

† Such as the great development of steam power, and the fact that Germany was the largest foreign contributor to the indemnity loans. Mr. F. W. Hirst ("The Stock Exchange," p. 91) remarks that at the present day "Germany's wealth is probably increasing more rapidly than that of France, but its annual surplus is usually absorbed by the requirements of the Imperial and State governments and of the municipalities as well as by the demands of a trade which is largely carried on on credit." The state of things thus pictured, especially as regards the requirements of German trade, is probably not very dissimilar to that prevailing in the years following the war.

‡ E. D. Howard, p. 15.

its close to less than one-half, composed in the main of men untrained to industrial pursuits and unfitted for regular industry by long habits of reliance on booty. The Seven Years' War, the Napoleonic Wars, and the later struggles in which the German peoples were engaged, whatever their ultimate results, had the same proximate effect on industry and commerce. The unity of the German states which the establishment of the Zollverein inaugurated and the final issue of the Franco-German war, which added peace and security to that unity, set the tide flowing—it is to be hoped permanently—in the opposite direction.

If this way of regarding the facts is legitimate, as it seems to be, the great development of German industry and commerce in latter years is sufficiently explained. The situation that formerly prevailed was exactly reversed as soon as peace was assured for at least a generation. What had been Germany's chief drawback suddenly became her most important commercial asset. Her geographical position in the centre of Europe, which she has exploited by developing her railways and waterways, is admitted by all modern writers to be one, at least, of the most powerful factors contributing to her industrial growth. Regarded in this light the French milliards, and indeed the question of capital generally, assume a much less important aspect. It was not a lack of capital, but a lack of security that had hampered her progress in the past. Security attained, the capital was at once forthcoming.

In short, the beginnings of Germany's progress

to the front rank among commercial nations passed, as such facts commonly do pass, almost unnoticed by contemporary observers. The extent and growth of her foreign exports, the existence of large funds invested in American securities which the crisis of 1873 had disclosed, the $2\frac{3}{4}$ milliards of commercial bills included in the indemnity payments, and the astonishing sum of over £4,000,000 sterling of German money collected in France after the war—all these indications of increasing wealth and prosperity were unregarded or in some cases, perhaps, purposely ignored. At the very time when Bismarck, for his own purposes, was painting the condition of the Empire in the most sombre colours, the German imports amounted to £138,000,000 sterling, or £3 3s. 0d. per head of a population of 42,000,000, and her exports were 136 millions or only about 2 millions less than those of France. The pessimistic views of the time as to Germany's commercial position were a natural result of the mirage created by the financial situation, and might be paralleled by equally despondent assertions of English writers as to our own country, which Giffen has shown to have had no foundation in fact. More important are the unguarded admissions of contemporary observers who reflect the prevalent opinions. Thus a writer in the *Edinburgh Review* of October, 1879, at the close of a doleful catalogue of industrial woes has finally to admit that the German iron trade was flourishing, and even at times able to undersell its English competitors in foreign markets, that German spinneries were paying handsome dividends, and

that the foreign trade of Germany, especially with the East, was considerable.

The net conclusion, therefore, to which all the facts seem to point is that the indemnity played but a small part, if any, in aggravating the financial troubles under which Germany, in common with the rest of the world, suffered in the ten years which followed the conclusion of peace: a smaller part, probably, than the currency legislation, which really had a wide-spread influence on prices and money markets. On the other hand, the German peoples did derive a considerable benefit, because the Empire was able to strengthen its military defences at the cost of France without resort to additional taxation or the raising of fresh loans. This result of the French payments is admitted by Serrigny, who says that "the indemnity permitted Germany to effect a greatly needed monetary reform, and to increase during a long period its military power, without putting any serious strain on the masses of its population."* So far as this expenditure did not exceed the requirements of national security, it is in strict accordance with the procedure that Mr. Angell regards as inevitable in the present state of public opinion—that a nation subject to attack should arm efficiently for defence. But he does not always seem to see the implications of this principle. In debiting against the indemnity all the costs of preparation for the war, and all the military expenses incurred after its conclusion, he omits to ask himself the essential question, how much of this expenditure

* "Les Conséquences Économiques, &c.," p. 400.

would have been inevitable had there been no war at all? It can hardly be said that the policy of France under the Second Empire was of so pacific a character that defensive precautions could safely have been dispensed with by neighbouring nations. If the bulk of the military preparations of Germany would have had to be incurred, whether war resulted or not, then they cannot fairly be debited against the indemnity payments, which would really constitute a double gain—five milliards the more for German defence, five milliards the less for French aggression. Whether this was really the case or whether the military preparations were wholly or in part superfluous, is a question of fact with which Mr. Angell has not dealt. The present writer will not venture upon ground which he has forborne to tread.

In any case, superfluous or not, the military preparations and precautions against a "*guerre de revanche*" made surety doubly sure, and secured to Germany at the expense of her late antagonist the one condition needful for the development of her material resources. The mischief of the Thirty Years' War has been cancelled by the blessings of the Forty Years' Peace. This, and not a mere accession of capital, or a currency reform, is the paramount advantage that the indemnity gave to the new Empire, in the strong hands of a ruler whose real pacificism is only now beginning to be perceived.

If, therefore, the question be put, whether a nation can conceivably make a profit by the exaction of a pecuniary "*indemnity*" from another,

the answer would seem to be that in certain circumstances this is not impossible. But it is reassuring to note that such circumstances must always be very exceptional. The nation from which the indemnity is exacted must be very wealthy, or the operation will not be worth while, and at the same time it must be immeasurably weaker, in a military point of view, than the victor. These two circumstances are, of course, extremely unlikely to be realised together. A very wealthy nation which allows its defences to fall into such a condition that it offers itself an easy prey to its neighbours, is guilty of criminal neglect. A third condition, generally but not invariably implied in the second, is that the war must be of short duration. Even had the Boer republics been twice as wealthy as France, no conceivable monetary compensation would have rendered our own South African War financially profitable. All three conditions were present in the case of the Franco-German war. Germany was vastly superior in military organisation and efficiency, France was proverbially wealthy, and the conflict was begun and practically ended in a few short weeks between harvest and seed-time. No such combination of circumstances had happened before, at least in modern times: contemporary writers, seeking a precedent, can only find one in the ransom that Cæsar imposed upon Gaul. And no such favourable circumstances have happened since. Indemnities may have been demanded, as in the Russo-Japanese war, as a means of securing better terms of peace, but they have not been

persisted in when this end has been attained. To make the operation remunerative in the case of a struggle of even moderate duration between modern communities tolerably equally matched in point of military strength, the ransom would have ultimately to be fixed so high that it would trench upon the capital of the conquered nation, and the difficulties of compelling payments, as well as the shock to international credit, would be enormously increased. It may be safely predicted that when other motives have ceased to impel the nations to war, the desire for loot and ransom will have long been inoperative as a stimulant to military enterprises. Besides being an unprofitable, or at least a very hazardous speculation, it would as a motive for war possess no driving force. There is no deceptive glamour about a cash booty, such as decently veils the acquisition of territory, but the reverse. The operation savours of brigandage, and a nation that made war for the avowed and sole purpose of exacting ransom would be execrated by the civilised world, and no compensating enthusiasm would be aroused among its own subjects.

If it be asked, how the case of an "indemnity" differs in principle from that of acquisition of territory, so that a gain may sometimes, though rarely, be made in the one case and not in the other, the answer is that there is a population to be taken account of in the latter case and not in the former. Under modern conditions, a nation that acquires territory inhabited by a civilised and virile population, is in the position, not of a proprietor enlarging his

possessions, but of a trustee increasing his burdens and responsibilities. While mere inanimate cash has no predilections for one owner rather than for another, human beings are swayed by sentiments and associations, and are almost certain to resent, more or less violently, a forcible change of rulers. They have therefore to be either held in perpetual subjection by their new masters, or conciliated by privileges and exemptions not granted to the older inhabitants. From which it follows that the new administration of a conquered country can rarely be so economical as the old, and unless the old was making an exceptional profit from the territory transferred, as might have happened in former days when colonies were regarded as milch cows for the mother country, but can seldom happen now, the new rulers are not likely to gain by the transfer.

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